

CONSUMERS ILLINOIS WATER COMPANY
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ILL. C.C. No.

Section No.

Original Sheet No.

Applies To: City of Danville, Village of Tilton and Adjoining Territory in Vermilion County, Illinois.

QUALIFYING INFRASTRUCTURE PLANT SURCHARGE RIDER

Purpose

The purpose of the Qualifying Infrastructure Plant Surcharge ("QIPS") is to recover a return on, and depreciation expense related to, the investment in Qualifying Infrastructure Plant ("QIP") as described in the "Terms and Conditions" below. The QIPS rider is authorized by Section 9-220.2 of the Public Utilities Act [220 ILCS 5/9-220.2] and in accordance with 83 Ill. Adm. Code 656.

Application

The QIPS shall be capped at 5% of the QIP base rate revenues billed to customers. QIP base rate revenues shall include revenues recorded in accounts 460, 461, 462, 464, 465, 466, and 469 as described in 83 Ill. Adm. Code 605. The QIP surcharge shall not be applied to any add-on taxes or to any revenues attributable to the Purchased Water and Sewage Treatment Surcharges developed pursuant to 83 Ill. Adm. Code 655.

The QIPS shall be presented as a separate line item on customer bills. Also, the revenues resulting from each QIP surcharge rider shall be recorded in a separate revenue subaccount for each rate zone. The QIPS percentage shall be expressed as a percentage carried to two decimal places. The QIPS percentage shall be applied to the total amount billed to each customer located in the same rate zone based on the Company's otherwise applicable rates and charges. The QIPS percentage shall not be applied to the exclusions listed above. For purposes of this Rider, the "utility" or "Company" is Consumers Illinois Water Company. The "rate zone" is the Company's Vermilion Division.

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Effective Date

The QIPS shall become effective for service provided on and after the first day of the month following the month in which a QIPS Percentage Information Sheet is filed with the Commission pursuant to the "Terms and Conditions" set forth below.

QIPS Operation

The QIPS percentage shall be filed on an information sheet with supporting data no later than the 20th day of the month preceding the effective date of the QIPS percentage. An information sheet with supporting data filed after that date, but prior to the effective date, shall be accepted only if it corrects an error or errors from a timely filed information sheet for the same effective date. Any other information sheet with supporting data shall be accepted only if submitted as a special permission request to become effective on less than 45 days notice under the provisions of Section 9-201(a) of the Act.

The Company may file its initial information sheet with a QIPS percentage for the initial operation year with an effective date of the first day of any month. The effective date of any subsequent information sheet with a QIPS percentage is January 1 (and April 1 if the R component is modified). The Company may, at its option, file an information sheet modifying the surcharge percentage, with an effective date of the first day of any month during the operation year, when necessary to recognize a material change in assumptions used in developing the QIP surcharge percentage (including, but not limited to, a change in depreciation rates). The Company shall also file an information sheet to implement a Commission-ordered O component.

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Recoverable Qualifying Infrastructure Plant Costs

QIP costs shall include the pre-tax return on QIP and the net depreciation expense applicable to QIP.

- 1) The pre-tax return is calculated using the weighted cost of debt and weighted cost of equity determined in the utility's last rate case. The weighted cost of equity is multiplied by the gross revenue conversion factor (GRCF). The product is then added to the weighted cost of debt to obtain the pre-tax return. The pre-tax return is calculated using the following formulas:

$$GRCF = \frac{1}{(1 - PPTRIT)(1 - SIT)(1 - FIT)}$$

$$PTR = ((WWCE - WCPE) + GRCF) + WCLTD + WCSTD$$

Where:

GRCF = Gross Revenue Conversion Factor.

PPTRIT = Illinois Personal Property Tax Replacement Income Tax rate in effect at the time of the initial, annual, or quarterly filing.

SIT = Illinois State income tax rate in effect at the time of the initial, annual, or quarterly filing.

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FIT = Federal income tax rate in effect at the time of the initial, annual, or quarterly filing.

PTR = Pre-tax return.

WCCE = Weighted cost of common equity from the utility's last rate case.

WCPE = Weighted cost of preferred equity from the utility's last rate case.

WCLTD = Weighted cost of long-term debt from the utility's last rate case.

WCSTD = Weighted cost of short-term debt from the utility's last rate case.

- 2) Net depreciation expense shall be calculated by applying the approved depreciation rate for the rate zone to each category of QIP. The depreciation expense for QIP shall be reduced by the depreciation expense on the plant being replaced.

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Determination of the Qualifying Infrastructure Plant Surcharge Percentage

In calculating the QIP surcharge percentage, the Company will utilize annual prospective operation.

The QIP surcharge percentage for the operation year is determined by the following formula:

$$S\% = \frac{(NetQIP + PTR) + NetDep + (R + 1.33) + ((O + INT) + OM)}{PAR} \times 100\%$$

Where:

S% = QIP surcharge percentage.

NetQIP = The average forecasted cost of the investment in QIP for the rate zone for the operation year less forecasted accumulated depreciation in QIP for the rate zone for the operation year. The average forecasted cost of QIP, net of depreciation, shall be computed by using an average of 13 end-of-month balances of QIP and accumulated depreciation for the period from December 31 of the year preceding the operation year through December 31 of the operation year.

PTR = Pre-tax return as described above.

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- NetDep = Net depreciation expense related to the average investment in QIP for the rate zone for the operation year. Depreciation expense shall be calculated by multiplying the average forecasted cost of the investment in QIP by plant account, net of retirements, by the approved depreciation rates for the respective accounts in which the specific items included in the average QIP investment are recorded. The average forecasted cost of the investment in QIP by plant account, net of retirements, shall be computed by using an average of 13 end-of-month balances of QIP by plant account and retirements for the period from December 31 of the year preceding the operation year through December 31 of the operation year.
- R = Utility-determined reconciliation component (R component) calculated for the reconciliation year under the reconciliation feature as described below. The reconciliation component shall be collected over nine months from April through December.
- O = The Commission-ordered adjustment component (O component).
- INT = The calculated interest attributable to the O component. This interest shall be calculated as described in the terms and conditions set forth below.
- Om = The Commission-ordered O component multiplier. Om is a timing factor applied to the O component and the INT to allow for the collection of the O component and the INT over the remainder of the operation year. For example, if the O component and the INT were included in the QIP surcharge percentage on January 1, the Om would be 1.00. Similarly, if the O component and the INT were included in the QIP surcharge percentage on April 1, the Om would be 1.33.

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PAR = The projection of total water QIP base rate revenues, as applicable, for the rate zone for the period from January 1 through December 31. The projected revenue shall not include the exclusions listed above.

Terms and Conditions

To be classified as QIP, the plant additions must meet the following criteria: 1) The plant additions must be replacements of existing plant items from the accounts listed below; 2) Such replacements must be non-revenue producing; 3) Such replacements are installed to replace facilities that are worn out or deteriorated or to replace facilities that are obsolete and at the end of their useful service lives due to a change in law or a change in the regulations of a governmental agency; 4) Such replacements are installed after the conclusion of the test year in the utility's latest rate case; and 5) Such replacements were not included in the calculation of the rate base in the utility's last rate case.

The plant additions shall include items from the following accounts, pursuant to 83 Ill. Adm. Code 605: 1) Account 331, Transmission and Distribution Mains; 2) Account 333, Services; 3) Account 334, Meters and Meter Installations; and 4) Account 335, Hydrants.

In addition to replacements, the following items may be classified as QIP: main extensions recorded in Account 331 for water utilities that are constructed to eliminate dead ends and the unreimbursed costs recorded in the appropriate accounts listed in the preceding paragraph that are associated with relocations of mains, services, hydrants, and sewers occasioned by street or highway construction.

QIP shall include only plant additions installed on or after January 1 of the year in which the Company files its initial QIPS Rider.

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Annual Reconciliation

- a) On or before March 15 of each year in which the Company had a QIPS in effect for all or part of the immediately preceding calendar year, the Company shall submit to the Commission an annual reconciliation regarding the results for the previous reconciliation year. The annual reconciliation shall be verified by an officer of the Company. As required by this Section, the annual reconciliation shall include a calculation of the R component necessary to adjust revenue collected under the QIPS Rider in effect for the rate zone during the reconciliation year to an amount equivalent to the actual level of prudently-incurred QIP cost for the reconciliation year. In the event that the earnings report filed under this Section for the rate zone shows that the Company's actual rate of return has exceeded the level authorized in the Company's last water general rate proceeding, then the R component shall include the credit required by subsections (c) and (d). Any adjustment made through the R component shall be in effect for nine months commencing on the April 1 immediately following submittal of the annual reconciliation.
- b) With the annual reconciliation, the Company shall file a petition seeking initiation of the annual reconciliation hearings required by Section 9-220.2 of the Act. After the hearing, the Commission shall determine the amount of the adjustment, if any, that should be made (through the O component) to the level of revenue collected by operation of the QIPS Rider for the rate zone during the reconciliation year, so that the amount of such revenue is equal to the actual level of prudently-incurred QIP cost for the reconciliation year (to the extent that such adjustment has not already been reflected through an adjustment made by the Company to the R component of the QIP surcharge percentage).

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c) In the annual reconciliation, the Company shall include, for each rate zone in which a QIP surcharge has been in effect, data showing operating income and rate base for the reconciliation year, such data being developed in accordance with (f)(4) below. If, for any such rate zone, the actual rate of return on rate base for the reconciliation year exceeds the overall rate of return allowed in the utility's last water general rate proceeding, revenues collected under the QIP surcharge rider shall be reflected as a credit through the R component of the QIP surcharge to the extent that such revenues contributed to the realization of a rate of return above the last approved level. A credit value for the R component will result in a reduction of the QIP surcharge percentage. To the extent, if any, that a required adjustment for a reconciliation year has not been already made by the Company (through the R component), the Commission shall require (through the O component) that such an adjustment be made after the annual reconciliation hearing.

d) The Company will calculate the R component using the following formula:

$$R = (\text{ActNetQIP} - \text{PTR}) - \text{ActNetDep} - \text{QIPRev} - \text{Rpy} - \text{Opy} - \text{EEA}$$

Where:

R = Utility-determined reconciliation component.

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ActNetQIP = The average actual cost of the investment in QIP for the rate zone for the reconciliation year less actual accumulated depreciation of QIP for the rate zone for the reconciliation year. The average actual cost of QIP, net of depreciation, shall be computed by using an average of 13 end-of-month balances of QIP and accumulated depreciation for the period from December 31 of the year preceding the reconciliation year through December 31 of the reconciliation year.

PTR = Pre-tax return as described above.

ActNetDep = Actual net depreciation expense related to the average investment in QIP for the rate zone for the reconciliation year. Depreciation expense shall be calculated by multiplying the actual investment in QIP by plant account, net of retirements, by the approved depreciation rates for the respective accounts in which the specific items included in the average QIP investment are recorded.

QIPRev = Actual QIP revenues for the rate zone collected during the reconciliation year through the QIPS.

Rpy = The R component for the rate zone from the previous reconciliation year.

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- Opy = The sum of the O component and the calculated interest attributable to the O component, or the sum of any O components and the calculated interest attributable to the O components, included in the calculation of the QIP surcharge percentage during the reconciliation year.
- EEA = Excess earnings amount calculated in accordance with subsections (a), (c), and (f) (4) of this Section. There will only be an EEA when the utility's actual rate of return for the reconciliation year exceeds the overall rate of return authorized by the Commission in the utility's last water rate proceeding.
- e) Any adjustment made by Order of the Commission under (b) or (c) above shall be included in the O component and be in effect for either 12 months or nine months, beginning on the next January 1 (if 12 months) or April 1 (if nine months) following the Order of the Commission, or such other period as the Commission may direct in the Order requiring that an adjustment be made.
- f) Each annual reconciliation shall include the following schedules:
- 1) A schedule showing, for each rate zone for which a QIP surcharge rider was in effect, the QIP costs for the reconciliation year;

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- 2) A schedule showing, for each rate zone for which a QIP surcharge rider was in effect, the revenues arising through the application of the QIP surcharge during the reconciliation year;
- 3) A schedule showing, for each rate zone for which a QIP surcharge rider was in effect, the reconciliation component determined by the utility showing the amount to be recovered or refunded over a nine-month period commencing on April 1; and
- 4) Schedules showing the utility's calculation of actual operating income and 13-month average rate base for the reconciliation year by rate zone. This calculation of actual operating income and 13-month average rate base shall be adjusted for any applicable adjustments accepted by the Commission in the utility's last rate case. In calculating the amount of federal and State income tax expense reflected in operating income, the utility shall reflect as deductible interest expense for tax purposes the product that results when the weighted embedded cost-of-debt reflected in the overall rate of return calculation used in the utility's last rate proceeding is multiplied by the rate base for the applicable rate zone as shown in the annual reconciliation.

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In the event that the actual rate of return for any rate zone exceeds the rate of return allowed in the utility's last water or sewer general rate proceeding, a schedule showing the extent to which revenues provided by operation of the QIP surcharge contributed to the difference between the actual and last-authorized rate of return also shall be provided. The amount of the revenues provided by the QIP surcharge that contributed to the actual rate of return exceeding the overall rate of return authorized by the Commission in the utility's last water and sewer rate proceeding shall be included as a credit in the calculation of the R component.

- g) The first reconciliation year shall begin on the effective date of the first QIP surcharge information sheet and end on December 31 of the calendar year in which the first information sheet became effective. Each subsequent reconciliation year shall end on December 31.
- h) When the utility files its annual reconciliation, the utility shall provide copies of the following items to the Commission's Manager of the Water Department and to the Commission's Manager of the Accounting Department.
 - 1) Copies of all workpapers pertaining to the reconciliation;
 - 2) A detailed summary of all invoices supporting the costs for eligible QIP surcharge projects;

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- 3) Copies of the applicable general ledger or comparable material supporting the recovery of the QIP surcharge;
 - 4) A detailed worksheet showing the calculation of any utility-determined reconciliation component (R component) amount based upon the annual reconciliation; and
 - 5) Information regarding the prudence of the utility's investment in QIP.
-
- i) Amounts either collected or refunded through the O component shall accrue interest at the rate established by the Commission under 83 Ill. Adm. Code 280.70 (e) (1). Interest on the O component shall be applied from the end of the reconciliation year until the O component is refunded or charged to ratepayers through the QIPS.
 - j) If, for a rate zone, the annual reconciliation filed by a utility shows that the revenues collected by application of the QIP surcharge rider exceed actual QIP costs for three or more consecutive reconciliation years, the Commission may initiate hearings under Section 9-250 of the Act [220 ILCS 5/9-250] to determine whether the utility's QIPS rider for the rate zone should be canceled.

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